



February 24, 2010

To: Wisconsin Assembly Committee on Agriculture

From: Wisconsin Cheese Makers Association

Re: **WCMA Support for AB 746; AB 748 and AB 756**

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Wisconsin Cheese Makers Association represents the majority of cheese manufacturers, cheese processors and dairy marketers in Wisconsin. We appreciate the opportunity to express our support for these bills.

**WCMA supports AB 746**, promoting locally-grown food in school meals and snacks. The program has the potential to link locally-produced cheese and other dairy products with Wisconsin schools. To that end, WCMA respectfully requests that this committee consider the explicit addition of dairy products to the bill, for example in Section 5 the new 93.49 (1) Definition and in 93.49 (2)(b)(1) could note dairy products.

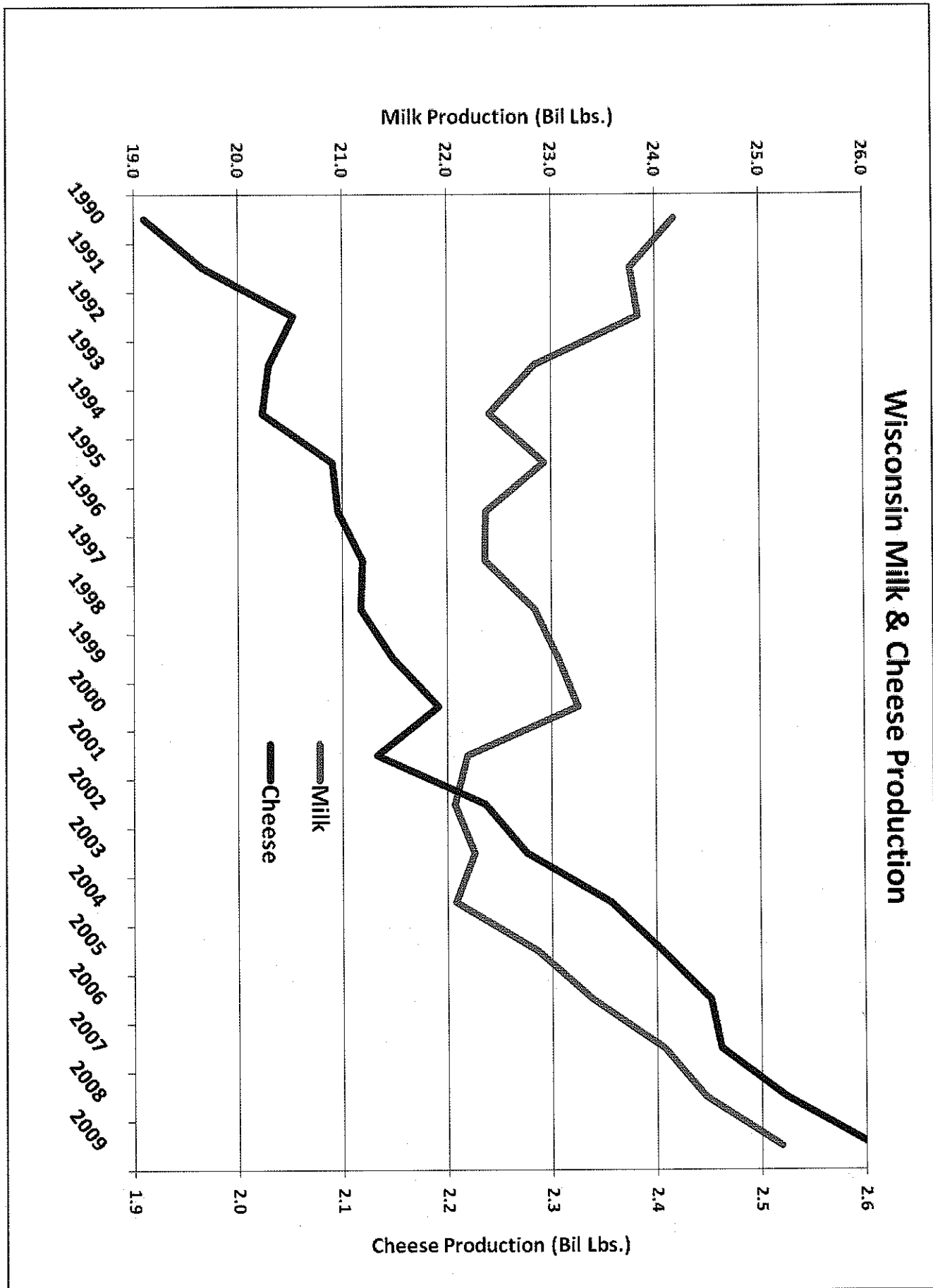
**WCMA supports AB 748**, which suspends for one year the assessment fee milk contractors pay to the Agricultural Producer Security program (APS). This bill originated from dairy farm cooperatives whose hard-working dairy farmer members in 2009 weathered the most difficult financial year in decades. The intent is simple: freeze assessment payments to the producer security fund for one year to make additional money available to milk contractors to pay to dairy producers.

With more than \$10 million in its indemnity fund pool, the APS program has ample funds to cover most dairy industry defaults. The additional (estimated) \$650,000 in assessment dollars that milk contractors will pay next year represents 6 percent of the fund. This bill anticipates that this \$650,000 would be better retained for use in dairy producer milk checks in 2010.

**WCMA supports AB 756**, which extends the dairy farm modernization tax credit for two additional years. The bill is timely and important for several reasons:

1. Wisconsin dairy producers will require the next two years, 2010 and 2011, to rebuild equity and repay loans following the worst financial year for dairy in decades. This tax credit will benefit the bottom line of dairy farms that move forward with farm improvement plans in anticipation of better times ahead.
2. Wisconsin, despite a year of across-the-board losses on dairy farms, has grown milk production in the last five years after a decade of concern that the industry may stagnate and fail. Last year's record 25 billion pounds of fresh farm milk was an achievement tempered by red ink. This bill will continue to spur improvements on farms and improve the quality of life for dairy farmers, increase cow comfort, and put more milk in bulk tanks.
3. **Wisconsin needs the milk!** Demand for Wisconsin cheese has never been higher and the state continues its success in producing higher value cheeses and dairy products and fewer commodity products. To meet demand, Wisconsin cheesemakers supplement fresh Wisconsin milk with nonfat dry milk and concentrated milk from other states. About 13 percent of the milk used in the state came from these outside sources to fill vats and fill orders.

# Wisconsin Milk & Cheese Production





State of Wisconsin  
Jim Doyle, Governor

## Department of Agriculture, Trade and Consumer Protection

Rod Nilsestuen, Secretary

DATE: February 24, 2010

TO: Representative Amy Sue Vruwink, Chair, Assembly Committee on Agriculture

FROM: Janet Jenkins, Administrator, Division of Trade and Consumer Protection

SUBJECT: Testimony on AB 748 – Suspension of producer security assessments for milk contractors.

Thank you for the opportunity to testify for information on AB 748.

### Background -- About the Producer Security Program and Milk Contractor Assessments

The Agricultural Producer Security law (Chapter 126, Wis. Stats.) requires persons who purchase milk from producers to obtain a "milk contractor" license. Milk contractors are required to abide by certain regulations regarding transactions with producers, file financial statements with the department, and, in most cases, pay assessments into the Producer Security Fund. In the event a milk contractor defaults on payments to producers, the fund reimburses producers for up to 80% of their losses.

Milk contractor assessments are determined by a statutory formula that considers the amount of milk purchased from producers, measured in dollars; the financial strength of the contractor, and the number of years the milk contractor has participated in the producer security fund. Since no two milk contractors are alike in terms of the formula, assessments vary widely from contractor to contractor. All other things being equal, the worse a contractor's financial ratios, the more it pays into the fund. (Assessments are calculated using the current ratio [current assets ÷ current liabilities] and the debt to equity ratio [total debts ÷ total owner's equity].)

### Impact of AB 748 on the Producer Security Fund

AB 748 suspends the payment of annual producer security fund assessments for milk contractors for the license year beginning May 1, 2010 and ending on April 30, 2011. The department estimates this suspension will result in a revenue loss to the fund of approximately \$500,000. Approximately \$125,000 of this loss will fall in the current fiscal year, and the remaining \$375,000, in fiscal year 2011. The annual assessment amount falls across two fiscal years because it is billed at the beginning of each new license year (May 1), and is thereafter payable in four quarterly installments (June 1, Sep. 1, Dec. 1, and Mar. 1).

The assessment for all milk contractors during the current license year was \$749,785. The department estimates that the total assessments for all milk contractors in the upcoming license year will be \$500,000. The reduction from the current license year is largely attributable to lower milk prices this license year as compared to prices in several prior license years.

The department's estimate of loss in revenue for the producer security fund assumes that the financial ratios contractors report for the upcoming license year will not vary significantly from those reported last license

*Agriculture generates \$59 billion for Wisconsin*

year. If this assumption proves incorrect, the estimate will change.

AB 748 calls for a one-year suspension of assessments only for milk contractors. However, current law already provides for an assessment "holiday" that applies to all industries. The existing holiday occurs automatically when the overall fund balance reaches \$11 million and an industry's individual balance in the fund reaches a defined threshold. Secretary Nilsestuen's Special Work Group on Agricultural Producer Security recommended these thresholds as well as the assessment holiday itself. Since an assessment holiday is part of current law, AB 748 has no long-term fiscal impact, but rather, shifts the holiday for milk contractors from the near future to the present.

The department projects that in the absence of AB 748 and any default that significantly reduces the fund's total balance, milk contractors will realize their automatic assessment holiday in the 2011 or 2012 license year. The department has concerns that this bill could create a potentially dangerous precedent by removing the current objective standards for determining when an assessment holiday occurs, and replacing them with wholly subjective standards, none of which AB 748 articulates.

In addition, the department has concerns about suspending milk contractor assessments at this time given what it sees as the volatility in the agricultural markets. Put another way, is now really the time to reduce revenues into the fund that provides a partial safety net to producers in the milk, grain, and vegetable industries for an average savings of \$53 per producer? The department respectfully requests the committee to carefully consider the answer to this question in its deliberations on AB 748.

### **Impact on Dairy Industry**

There are 112 businesses in Wisconsin licensed to buy milk from producers. Of these, 15 are not "contributing contractors" and pay no assessments into the fund. (These contractors either meet minimum financial ratio requirements allowing them to opt-out of participation, or have negative owners' equity, a condition that disqualifies them from participation.) The remaining 97 contractors pay fund assessments. Approximately 48 of these pay only the minimum assessment which is \$100, \$200, or \$500 depending on how much they purchase from producers. The remaining 49 contractors pay the bulk of the assessments. Contractors that pay the most tend to be large contractors that also have considerable debt, low equity or both.

AB 748 does not require contractors to pass on any assessments savings to producers. However, if it did, the savings to each of the majority of dairy farms would not be substantial.

There are roughly 13,000 dairy farms in Wisconsin. There are 3,600 dairy farms that do not sell milk to contributing contractors; they would not realize any savings under AB 748. The remaining 9,400 dairy farms that sell milk to *contributing contractors* would save an average of about \$53 per farm ( $\$500,000 \div 9,400$ ). More specifically:

- 75% of the dairy farms would save less than \$100 each.
- 25% of the dairy farms would save between \$100 and \$500 each.
- 0.1% of dairy farms would save more than \$1,000 each.

Again, thank you for the opportunity to provide information regarding AB748. I'd be happy to answer any questions.



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Date: February 24, 2010  
To: Members, Assembly Committee on Agriculture  
From: John Manske, Director of Government Relations  
RE: Support for Assembly Bill 748

Cooperative Network represents 600 cooperatives, mutual insurance companies and credit unions owned by approximately 2.9 million Wisconsin members. Among our members are dairy cooperatives and farm supply cooperatives. The vast majority of them participate in the Agricultural Producer Security (APS) Program as milk contractors, grain dealers and grain warehouse keepers. I am one of 10 individuals who serve on DATCP's Agricultural Producer Security (APS) Council, and have been Cooperative Network's sole representative since the council's creation via 2001 Act 16. I am appearing today to register our support for Assembly Bill 748.

We appreciate the leadership of Chairwoman Vruwink and Representative Brooks on this legislation, and the bipartisan support from additional legislators. We also appreciate the support for AB 748 from various organizations, including the Wisconsin Farm Bureau Federation, National Farmers Organization, Wisconsin Cheese Makers Association and Midwest Food Processors Association.

The impetus behind this goes back to a meeting that DATCP Secretary Rod Nilsestuen convened on September 9, 2009 during a meeting of the Board of Agriculture, Trade & Consumer Protection. At that meeting to discuss "solutions" to the dairy crisis, many thoughts of solutions focused on the federal government. Board member Brian Rude suggested that the state should also look for some responses right here. This is what we are attempting with AB 748, recognizing that it would be a modest measure of fee relief for the dairy industry for the license year beginning May 1.

Milk contractor assessments to the APS program have provided ample fee revenue for the program, far exceeding those for the other contractor categories, and exceeding what DATCP had predicted in 2002 would be collected from the dairy industry over the most recent years of the program's existence. In fact, as on December 31, 2009, the APS fund balance of over \$10.3 million includes almost \$7 million that derived from the milk contractor assessments. To date, only a payment of \$130,000 was made from the fund upon a default, that of Linden Cheese, that was paid in fiscal year 2006.

Setting aside assessment fees for milk contractors for a year will do no damage to the APS fund, while at the same time leaving some hard earned money in the hands of our \$26 billion valued dairy industry to benefit producer members and shippers of the cooperative and proprietary dairy operations in America's Dairyland.

I encourage your support of AB 748, and welcome questions at this time. Thank you for considering our request.